GOVERNMENT OF INDIA
PANCHAYATI RAJ
LOK SABHA

UNSTARRED QUESTION NO:3315
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OBJECTIVES OF PANCHAYATI RAJ
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Will the Minister of PANCHAYATI RAJ be pleased to state:

(a) whether the World Bank has considered that the objectives of the Panchayati Raj System in the country have not been achieved;

(b) whether the official figures relating to Kerala and Karnataka have been considered as unrealistic in the study conducted by the World Bank; -

(c) if so, the points in respect of which the World Bank has given suggestions in the said study alongwith the details of action suggested; and

(d) the action taken or scheme formulated by the Government to implement the suggestions given by the World Bank?

Answer

MINISTER OF PANCHAYATI RAJ (SHRI MANI SHANKAR AIYAR)

(a) The World Bank Report has made certain recommendations for strengthening local governments including the recommendation for budgetary autonomy. It has been suggested that local governments should have the power to hire, fireand determine the compensation level for their employees. According to the World Bank Report it would otherwise be difficult for local governments to control their budgets and be held to a hard budget constraint. According to the World Bank these powers would eliminate the dual responsibility that confronts local government employees between accountability to the government unit for whom they work, and accountability to the level of government that determines their well being in the work place.Effective implementation of service delivery by rural local governments would seem to require accountability of their officers. The World Bank Report tv emphasized that priority should be given to empower Gram Panchayats. This has been recommended because the Gram Panchayats are closest to the people and can best detect and respond to people`s preferences and needs. The long term goal should be to endow them with sufficient autonomy and resources to respond to local needs. Gram Panchayats should be allowed to spend public resources according to their priorities, to recruit and fire their own staff, and to procure technical assistance, contractors and other services from the private, NGO or public sector as they see fit. Plans, budgets, funds and assets should be treated as theirs and higher level panchayats should refrain from intervening in their affairs.

(b) The observations made in the report in respect of Kerala and Karnataka are given in the Annex-I.

(c) The main points about which World Bank has given suggestions in the Study are as under:

(i) State Govts. need to rethink the role for Districts and Blocks

(ii) Priority should be given to empowering the village Panchayats.

(iii) Strengthen local budgetary autonomy

(iv) Improve the structure of the property tax

(v) Improve collection of the property tax

(vi) Improve collection of the user fees and charges

(vii) Broaden the tax base.

(viii) Redesign transfers.

(ix) Strengthen State Finance Commission.

(x) Create an information system for local finances

(xi) Improve accounts and accountability

(xii) Improve auditing

The World Bank has suggested the following course of action:

(I) Develop a fiscal decentralization plan that includes all of the necessary components, and is based on the objectives which the government has set.

(II) Begin investing in upgrading the capacity of the State Government to lead and monitor the reform program and in the capacity of the local governments to implement the reform.

(III) Fix the financial reporting system of local government

(IV) Clarify expenditure assignments.

(V) Restructure the transfer system to realize equalization objectives, and to allow local governments more autonomy, when local government capacity has reached an adequate level. VI.Improve local government revenue mobilization opportunities.

(d) Government are fully aware of the issues pointed out in the World Bank Report. Necessary steps are being taken by the Government to strengthen the Panchayats for planning and implementation of schemes for economic development and social justice and to become institutions of self-government. As a first step towards this, a Conference of Chief Ministers and State Ministers in charge of Rural Development & Panchayati Raj on Poverty Alleviation and Rural Prosperity through Panchayati Raj was held at New Delhi on 29-30 June, 2004 jointly by the Ministry of Rural Development and Ministry of Panchayati Raj. The Conference decided to hold seven Round Table Conferences to chalk out a joint programme of action to secure implementation of Part IX of the Constitution.All the seven Round Tables have been held during July to December, 2004. A set of around 150 points for action were evolved during the Round Tables and adopted by consensus at the seventh Round Table in Jaipur. The Ministry has now initiated a process of visiting each of the States/UTs to review with the authorities concerned the progress in implementing the points for action contained in the compendium. It is expected that this will accelerate the pace of implementation of the provisions of Part IX, read with Article 243ZD, of the Constitution and bring about greater conformity, in both letter and spirit, to the Constitutional provisions of Panchayati Raj in all States/UTs concerned.

Annex-I

Observations made by the World Bank in the Report.

The following observations have been made by the World Bank in the Report-

Inter-governmental relations in the case of India are observed to be mostly Himachal with the districts and blocks having no taxing powers and little expenditure autonomy. Both Karnataka and Kerala more or less function as spending agents for higher level governments.The gram Panchayats have some independent taxing power, and some discretion in expenditure decisions.

The average Gram Panchayat in Karnataka has a population of 5000.The average Gram Panchayat in Kerala has a population of 25,000.

Kerala has developed a decentralized structure in terms of grant design and the empowerment of the gram Panchayats. Karnataka follows a more cautious approach where the State Government still hold the balance of fiscal decision making power. Neither approach has achieved effective empowerment of local governments and neither appears to have substantially ratcheted up local government spending or revenue raising, although the Kerala model is more developed. While there are important differences between the two States in some aspects of the systemic weaknesses observed, there also are similar flaws.

Both States have weak,outdated and poorly functioning financial managements systems. Perhaps the most fundamental causes of failure in Karnataka`s experience has been its extremely limited devolution of meaningful authority and capacity to local decision makers, while Kerala`s disappointments are largely traceable to the collapse of State finances in the years after the implementation of its decentralization program.

The system of intergovernmental transfers in the two States is quite different. In Karnataka, the total expenditure of rural local governments is equivalent to about 20 per cent of State expenditure, with 52% being spent at Zilla Panchayats (ZP), 44% at Taluk Panchayats (TP) and 4% at Gram Panchayats (GP) level. In Karnataka, the gram panchayats account for only a small fraction of rural local government spending and raise only a nominal amount in own source revenues. In contrast in Kerala 18% of the State Expenditure takes place at the local Government level with 22% at the ZP level, 18% at the IP level and 66% at the GP level.

A major constraint to true fiscal decentralization is the limited expenditure discretion that has been given to the local governments.In Karnataka at the ZPs and TPs level there is very little discretion on both Plan and Non Plan funds with large per centages being tied up for a particular use, say salaries, input purchases, Centrally sponsored schemes etc.Relatively speaking, GPs, because they have their own sources of revenue have more discretion on spending. Thus the fiscal decentralization process in Karanataka ensures that the district and block panchayats are mere disbursing agents of the higher level governments. In Karanataka, the local civil service is outside local control. Hiring, firing and compensation determination rests with high level governments. In Kerala, there is some administrative autonomy although much progress remains to be made.

II PROBLEMS WITH THE PRESENT SYSTEM

Assignment of expenditure responsibility is not clear. Unclear assignment of expenditures has led to duplication of efforts, some

failure to assume leadership in the delivery of services, coordination problems and some uncertainty on the part of the local population as to where accountability lies.

Local Governments have little control on their budgets.Both in Karnataka and Kerala, gram Panchayats fared somewhat better than the ZP and TP because they could raise revenue from their own sources.

The level of expenditure incurred at the GP level in per capita terms is as low as Rs.68.5 in Karnataka and a little higher in Kerala (not indicated).While expenditure assignment increases as panchayats are forced to take on agency functions on behalf of the State and Central Governments, their own revenue position is not very satisfactory.

Transfer system i s complicated a nd inconsistent wi th stated policy objectives: In Karnataka,untied grants allocated to gram panchayats are done so on the basis of equal amounts per GP.There is no evidence of equalization in the distribution of these grants, in fact even the poverty alleviation grants do not go more heavily to panchayats with a greater concentration of poor families.

In Kerala, Plan grants and the sponsored schemes together form about 35-40 percent of the State Plan.The most notable feature of Kerala`s fiscal decentralization is the large share of untied grants, about 82.3% in 1998-99,in the structure of transfers to Gram Panchayats. Both in percentage and per capita terms this represents a much larger share of untied funds than in Karnataka. As a matter of fact this is unique in India, further exceeding the untied transfers available to panchayats in any other State.

Revenue effort by Gram Panchayat is weak in both the States. In neither State do the local governments raise as much as one percent of Gross State Domestic Product. Relatively few of the gram panchayats have opted to levy the highest property tax rate allowed by the State. A number of reasons have been suggested for weak revenue performance such as poor enforcement procedures, weak administration procedures i.e. maintenance of a complete tax roll, need for more productive bases to tax,taxpayers see little benefit in paying taxes to local Governments, no rewards/penalty system for improved revenue generation.

In Karnataka collection rates on property taxes are very low. Given the admittedly large inflow of foreign money into Kerala and the boom in constructions per capita property tax collections should have been much higher. Interestingly/ per capita property taxes-and per capita own revenues are significantly and positively related to the variables representing accessibility to markets (say the road length per sq.km area, proportion of metalled roads, public) perception of service delivery i.e. availability of water etc.

Accounting system in Karnataka continue to be outdated, in danger of collapse with annual audits falling in arrears. Registers and books of accounts are unable to account for the increased and the diversified flow of funds. There is no uniformity in the accounting codes. GPs still rely on their old panchayat accounting rules and TPs and ZPs do not have designated accounting rules.No one knows the cash balance on a day to day basis. Budgeting has been reduced to a routine, devoid of analysis or advice for policy purposes. Similarly in Kerala with Panchayat funds having tripled and State Government grants having increased ninefold since 1996-97, old systems are under stress and new systems are yet to emerge. Various innovative tools and methods introduced during the people`s plan campaign to make the panchayat accountable to the community have not yet been perfected. These include social audits, the creation of beneficiary committees, right to information initiatives, citizen charters and an ombudsman,

lack of adequate information system on local finances.